PROVINCE OF ONTARIO

1990

Financial Report

ROBERT NIXON • TREASURER OF ONTARIO

91-01281/

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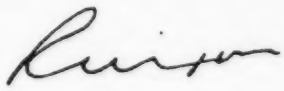
Treasurer's Statement

I am pleased to present the 1990 Financial Report of the Province of Ontario for the fiscal year ended March 31, 1990.

The report highlights the major aspects of Ontario's finances, and presents summarized financial statements of the Province for the fiscal year. The 1989-90 Public Accounts, which will be submitted to the Ontario Legislature later this year, will provide more detailed financial information.

For the first time in 20 years, the Province balanced the budget and achieved a surplus of $90 million.

Comments or questions on the contents of this Report are welcomed. You are invited to send them to the Office of the Treasury, Ministry of Treasury and Economics, 2nd Floor, Frost Building North, Queen's Park, Toronto, Ontario M7A 1Y7, telephone (416) 965-5273.



Robert Nixon
Treasurer of Ontario

Toronto, August 1990

Ontario

The Year in Review

Highlights ($ millions)	1989-90	1988-89
Revenue	41,692	37,256
Expenditure	41,602	38,735
Surplus/(Deficit)	90	(1,479)
Financing (net)	242	2,033
Gross domestic product*	269,552	247,969

* Calculated on a calendar year basis (subject to subsequent adjustments as federal statistics become available).

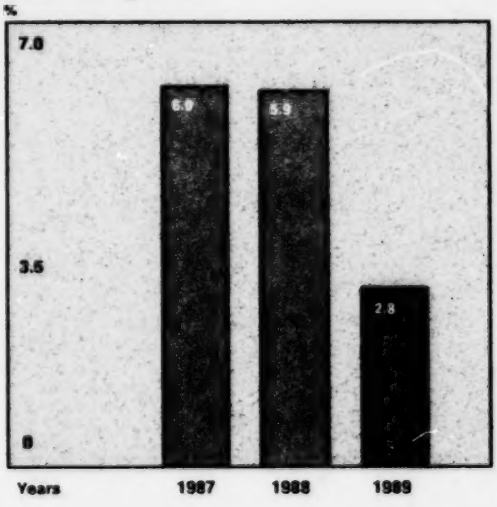
Ontario's economy

In 1989, Ontario's economy continued to expand, although at a more moderate pace than in recent years. Business investment lead growth in 1989. Consumer spending and housing also contributed to the expansion. Recent trends in provincial economic indicators are set out in the following graphs and commentaries.

Real gross domestic product (GDP) growth

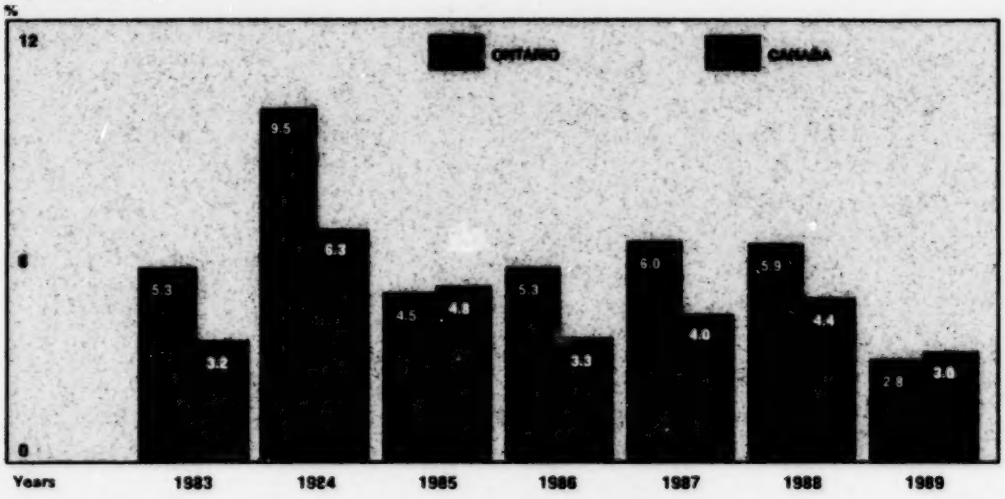
Real GDP increased by 2.8 per cent in 1989. Real GDP measures the value of all goods and services produced in the economy, adjusted for inflation. Real GDP growth is a key indicator of the health of the provincial economy.

Graph 1
Real GDP growth



Graph 2

Comparative growth in real GDP - Ontario & Canada 1983 to 1989



Growth in real GDP

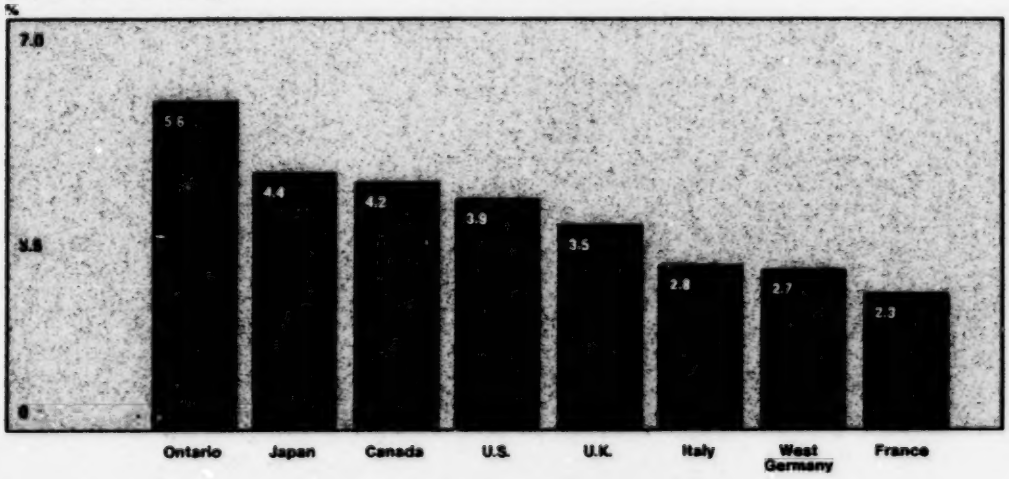
Real GDP in Ontario has risen by more than 46.7 per cent over the past seven years. Growth in Ontario has generally outpaced growth in the rest of Canada over this period.

International comparison of real output growth

Since 1983, real output growth in Ontario outpaced all the major industrial nations, growing at an average annual rate of 5.6 per cent.

Graph 3

Comparative real output growth, 1983-1989, (international)
(7 year annual average)



Provincial rate of inflation

The rate of inflation in Ontario, as measured by the Consumer Price Index, averaged 5 per cent over the 1983 to 1989 period. In 1989, the inflation rate rose to 5.8 per cent, primarily as a result of increased federal sales taxes, with higher unit labour costs and oil prices also contributing to the change.

Employment gains

Ontario's strong economic growth has led to healthy gains in employment. In 1989, employment increased by 87,000.

Unemployment rate

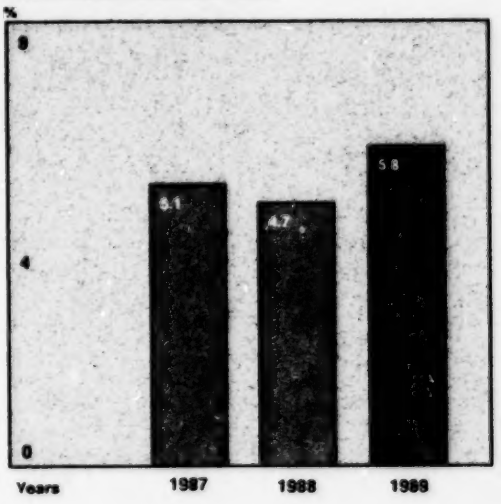
The average unemployment rate increased slightly to 5.1 per cent in 1989 from 5.0 per cent in 1988.

Interest rates

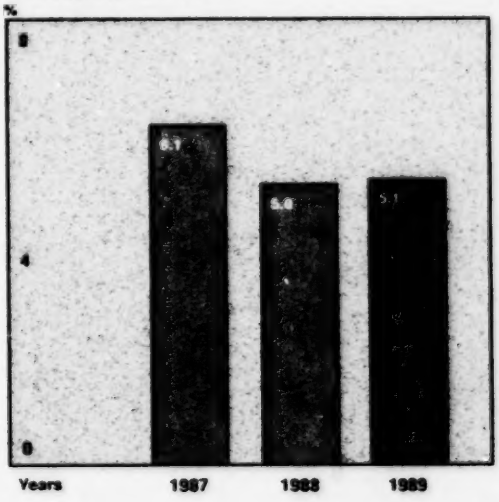
Interest rates were substantially higher during the fiscal year 1989-90 than in the previous year. The rise in short term interest rates was particularly pronounced as the Bank of Canada pursued a tight monetary policy.

In fiscal year 1989-90, the Canadian dollar averaged 2.1 cents (U.S.) above its previous fiscal year level, largely due to a rise in Canadian interest rates relative to U.S. rates.

Graph 4
Provincial inflation rate



Graph 5
Unemployment rate



Revenue highlights

Revenues reached $41,692 million in 1989-90, an increase of $979 million above the Budget forecast. Almost all of this increase can be attributed to in-year adjustments to the federal transfer of personal income taxes for current and prior years.

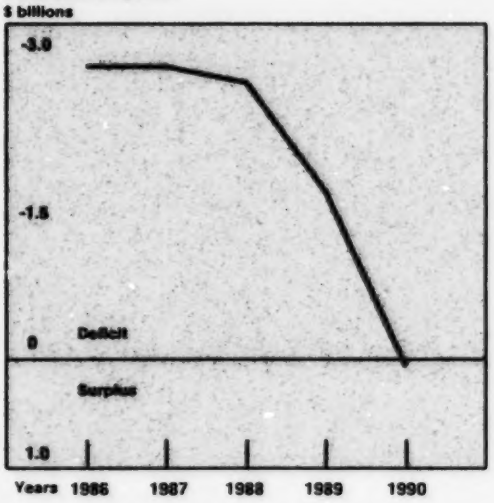
Expenditure highlights

Expenditures for 1989-90 were $41,602 million or $312 million above the Budget plan. Expenditure increases of $738 million were partially offset by underspending of $426 million. Increases included $334 million in advance payments of 1990-91 entitlements to hospitals, and $140 million of unfunded liability instalments to the Teachers' Pension Fund. In addition, $264 million was paid for other government programs, including additional requirements for income maintenance, health capital and forest fire fighting. The underspending of $426 million was primarily in the Ontario Health Insurance Plan (OHIP) and Home Care programs.

Surplus

Ontario ended its fiscal year with a surplus of $90 million instead of the $577 million deficit projected in the 1989 Budget. Graph 6 reflects the movement to a $90 million surplus position from a deficit of $2,614 million in 1986.

Graph 6
Deficit/Surplus



Revenue

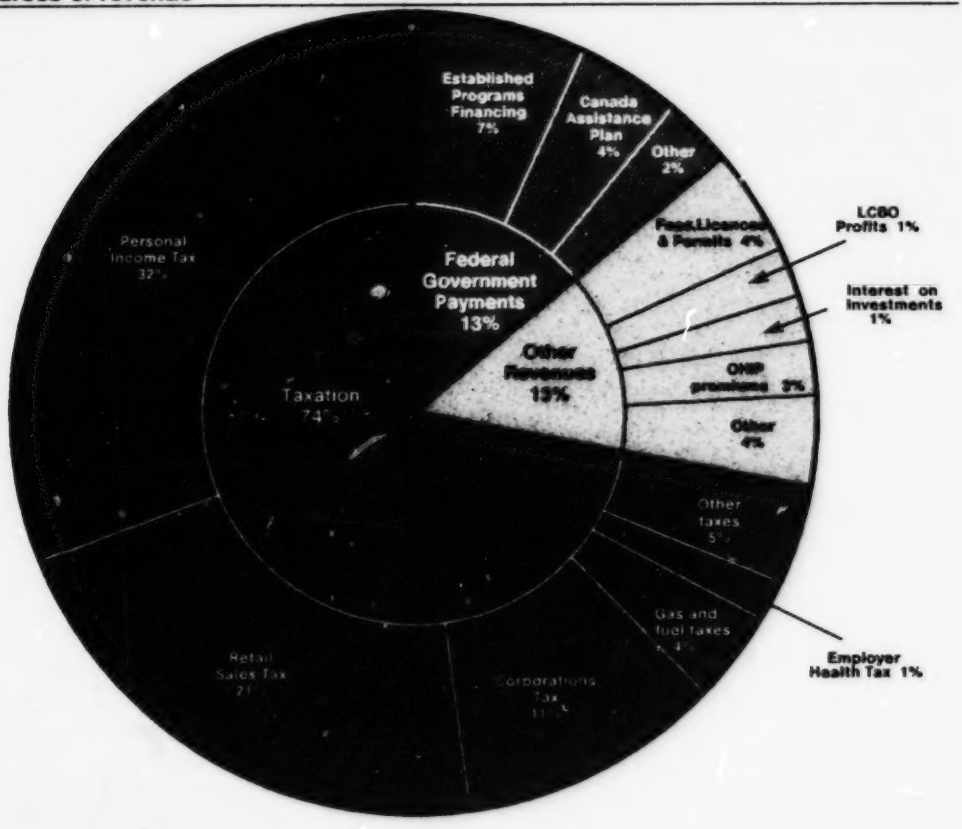
Revenue for 1989-90 was $41,692 million. The major sources of revenue and their respective percentages are shown in Chart 7. A comparison to the original Budget is shown in Table 1.

Taxation

Personal Income Tax of $13,518 million was $882 million above the original forecast and reflects larger than anticipated federal adjustments to current and prior years' entitlements.

A higher than anticipated level of consumption resulted in an increase of $124 million in revenue from Tobacco Tax. Higher than expected average housing prices and policy changes resulted in an increase of $69 million in revenue from Land Transfer Tax, and higher profits led to an increase of $47 million in Mining Tax. These increases were offset by lower than expected revenues of $130 million in Retail Sales Tax, $107 million in Corporations Tax, and $72 million in Employer Health Tax due to the decision to allow small businesses to remit quarterly and deferment of federal government remittances to 1990-91.

Chart 7
Sources of revenue



Payments from the Government of Canada

Total payments of $5,364 million were $105 million below the Budget estimate.

Established Programs Financing payments decreased by $61 million from the Budget forecast, partially offsetting higher payments for Personal Income Tax. Canada Assistance Plan payments increased by $7 million, reflecting higher provincial social assistance spending which is cost-shared with the federal government. Payments under the Young Offenders Act were $22 million below forecast due to a federal government decision to limit contributions to the 1988-89 levels. Payments under the Crop Insurance Agreement declined by $19 million.

Other revenue

Non-taxation revenues were $279 million above the original Budget plan, mainly due to a $202 million increase from interest on investments resulting from higher than anticipated liquid reserves and interest rate levels. OHIP premiums, Liquor Control Board of Ontario (LCBO) profits and revenue from Vehicle registration and Driver Licence fees increased by $93 million, $32 million and $27 million respectively. These were offset by a decrease of $23 million in Liquor Licence Board of Ontario (LLBO) revenues, and $67 million in Fines and Penalties.

Performance of major revenues 1989-90 — **Table 1**

($ millions)	Actual		Budget		Variance	
Taxation:						
Personal income tax	13,518		12,636		+882	
Retail sales tax	8,549		8,679		-130	
Corporations tax	4,720		4,827		-107	
Employer health tax	477		549		-72	
Other	3,751		3,519		+232	
		31,015		30,210		+805
Government of Canada:						
Established Programs Financing	3,107		3,168		-61	
Canada Assistance Plan	1,746		1,739		+7	
Other	511		562		-51	
		5,364		5,469		-105
Other Revenue:						
OHIP premiums	1,394		1,301		+93	
LCBO profits and LLBO revenues	1,067		1,058		+9	
Fees, licences and permits	922		985		-63	
Ontario Lottery Corporation	491		500		-9	
Interest on investments, etc.	467		265		+202	
Other	972		925		+47	
		5,313		5,034		+279
Total		41,692		40,713		+979

Expenditure and its Major Components

Total expenditure for 1989-90 was $41,602 million. Chart 8 shows expenditure by major category.

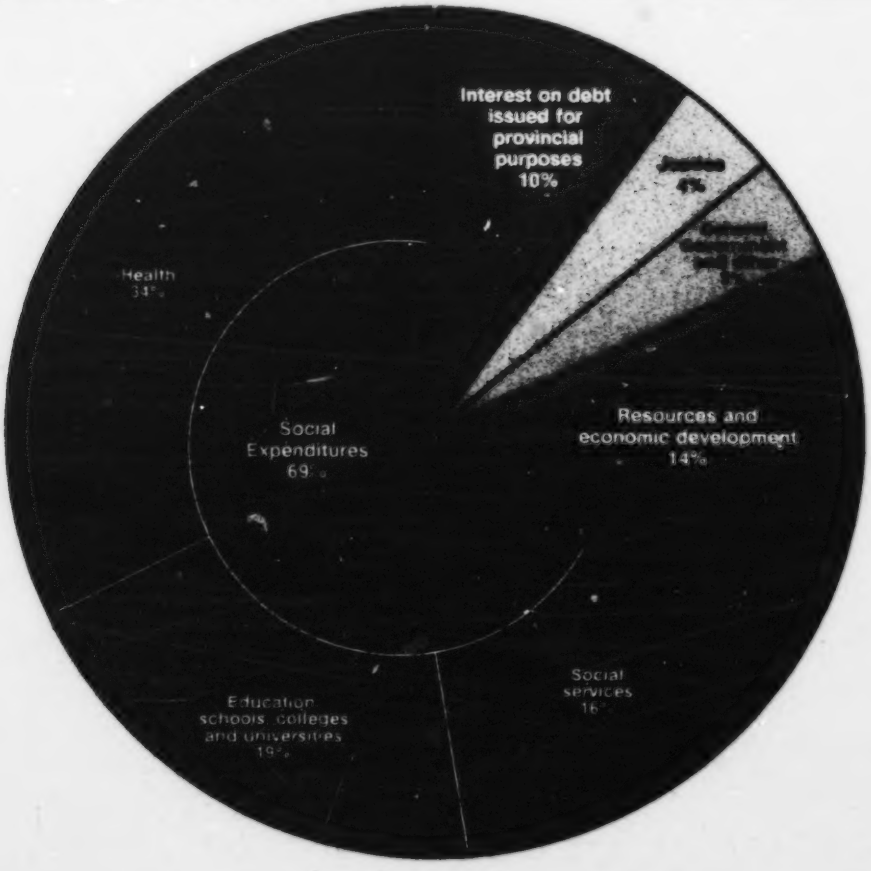
The major components of expenditure are transfer payments, program delivery costs and interest on debt issued for provincial purposes, each of which is discussed in turn. Graph 9 illustrates the five year trend of these components as a percentage of total expenditure.

Transfer payments

Transfer payments include grants, subsidies and assistance to persons and other government bodies. They totalled $30,534 million, representing 73.4 per cent of expenditure.

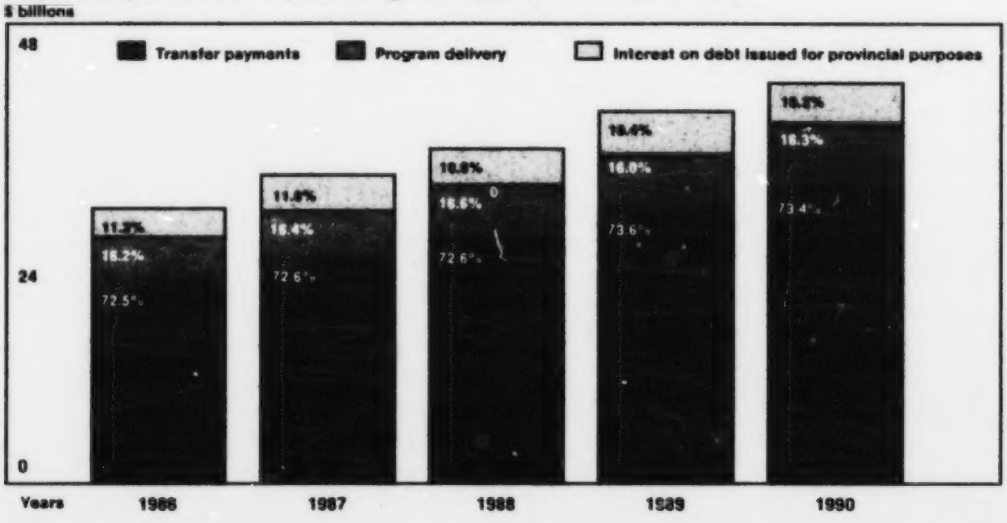
Graphs 10, 11 and 12 show the five year trend of transfer payments for health, education and social services.

Chart 8
Expenditure by major category



Graph 9

Major components as a percentage of expenditure, 1986 to 1990



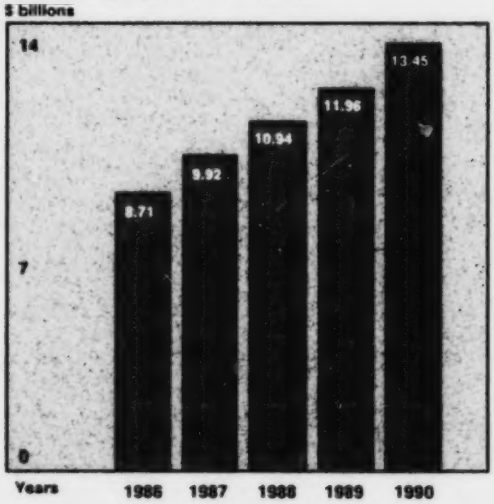
• **Health transfer payments** of $13,453 million included:

- $7,053 million (52%) to hospitals and related facilities for operating and capital purposes, including advance payments of $334 million for 1990-91 hospital entitlements;
- $4,244 million (31%) to physicians and other health practitioners for services and health care provided under the Ontario Health Insurance Plan (OHIP);
- $1,501 million (11%) to extended and special care facilities, ambulance and other health services; and
- $642 million (5%) in fully subsidized prescription drugs provided to individuals 65 years of age and over.

• **Education transfer payments** amounted to $8,294 million. The Province supports local school boards for primary and secondary schools, and also funds universities, colleges and other post-secondary institutions. Major elements were:

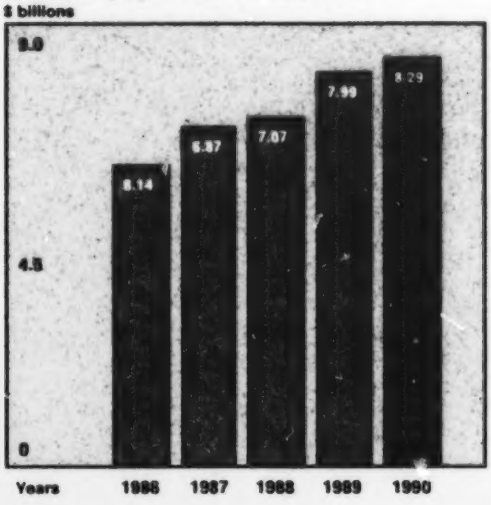
Graph 10

Transfer payments - Health



- $4,473 million (54%) to local school boards for their operating and capital costs;

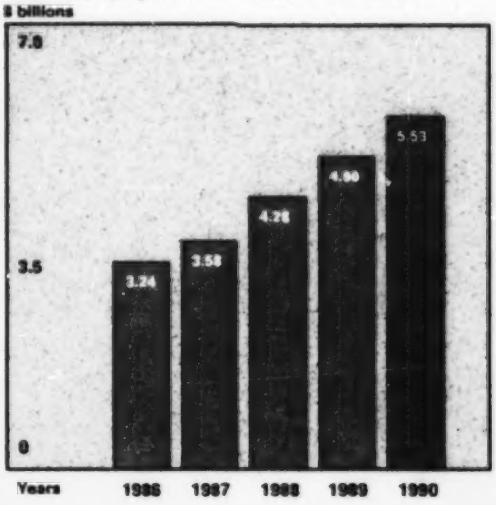
Graph 11
Transfer payments - Education



- $2,685 million (32%) to the post-secondary education sector for operating and capital costs; and
- $699 million (8%) to match the teachers' contributions to the Teachers' Superannuation and Adjustment Funds, and to supplement pensions under these plans, including an advance payment of $140 million pertaining to unfunded liability instalments to the Teachers' Pension Plan Fund.

• **Social services transfer payments** totalled $5,533 million. These payments are made mainly by the Ministry of Community and Social Services. Major expenditures were:
- $3,201 million (58%) for income maintenance to individuals requiring assistance on a long-term basis and subsidies to municipalities for their assistance programs;
- $862 million (16%) to support children's programs such as children's aid societies, day nurseries, mental health facilities and young offenders' programs; and
- $581 million (11%) by the Ministry of Revenue, in the form of property tax grants, sales tax grants, and guaranteed annual income payments, all of which benefit Ontario senior citizens.

Graph 12
Transfer payments - Social services

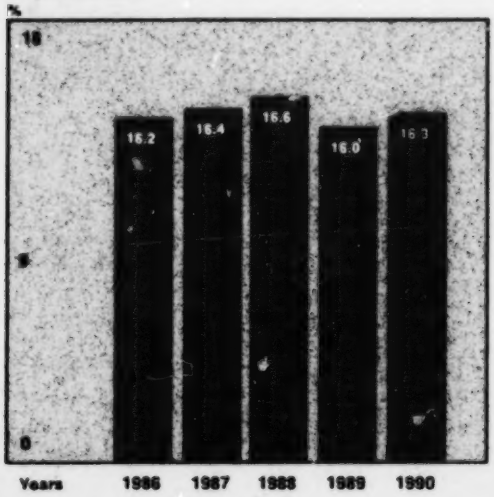


• **Transfer payments to local governments,** designed to assist general municipal programs for purposes other than health, education, and social services (including housing) totalled $2,134 million. Major elements were:
- $682 million in subsidies to municipalities for road programs;
- $459 million to municipalities in unconditional grants ($413 million was advanced in 1988-89 from the 1989-90 entitlements); and
- $383 million in capital and operating subsidies to municipalities for transit systems.

Program delivery

Program delivery costs, consisting of salaries and benefits for public servants and other direct operating expenditures, totalled $6,768 million or 16.3 per cent of total expenditures.

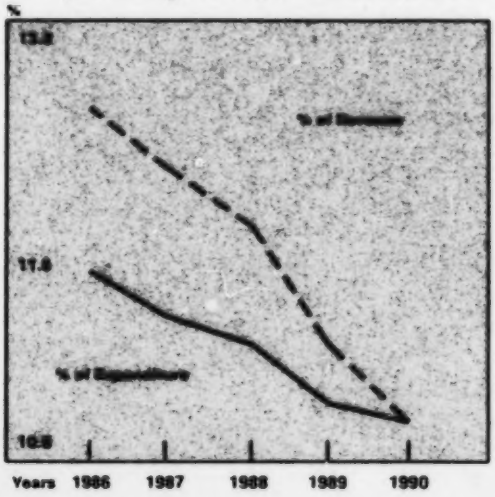
Graph 13
Program delivery as a per cent of total expenditure



Interest on debt issued for provincial purposes

Interest costs associated with debt for provincial purposes were $4,284 million, or 10.3 per cent of expenditure, down from 10.4 per cent in the previous year. As a percentage of revenue, the interest costs were 10.3 per cent, down from 10.8 per cent in the previous year. This is the result of increased debt retirements and the continued reduction in financing in recent years.

Graph 14
Interest on debt for provincial purposes as a percentage of expenditure/revenue



Capital investments

The capital investments of the Province include direct capital projects such as provincial highways and the Province's share of capital spending undertaken by municipalities, hospitals, universities, school boards, other provincial organizations and joint projects with private industry.

In fiscal year 1989-90, these investments amounted to $3,392 million.

Debt

Ontario's Debt

Ontario's own purpose debt which includes all obligations of the Province issued for provincial purposes totals $39,256 million. Debentures and notes account for $37,170 million while deposits, mainly with the Province of Ontario Savings Office, represent the balance of $2,086 million. The major components are illustrated on chart 17.

Financing

In 1989-90, the Province's net financing amounted to $242 million, $704 million below the 1989-90 Budget estimate. Sources of financing included $1,882 million of new debt issues of the Teachers' and Public Service Pension Plans, and $366 million in borrowing from the Province of Ontario Savings Office (POSO) and other deposits. Debt retirements of $2,006 million are comprised mainly of $446 million of Canada Pension Plan (CPP) debt, $189 million of Teachers' Pensions, $712 million of Public Service Pensions, and $650 million of Treasury Bills.

New pension legislation enacted in December 1989 established two pension funds, the Ontario Teachers' Pension Fund and the Public Service Pension Fund, combining the former Teachers' Superannuation Fund and the Public Service Superannuation Fund with their respective Superannuation Adjustment Funds. The new legislation authorizes the Funds to invest their net cash flows in public capital markets.

In 1989-90, the Ontario Housing Corporation borrowed $436 million directly from CPP (guaranteed by the Province) for the Homes Now program.

As a result of increased debt retirements and continued reduction in financing, Ontario's debt as a percentage of Gross Domestic Product declined to 14.6 per cent in 1989-90 from 15.7 per cent in the previous year, as depicted on graph 15.

Another measure of Ontario's ability to carry its debt is in the number of months of revenue that would be required to repay the total debt. As shown on graph 16, this number has fallen steadily in the past five years from 15 months in 1985-86 to 11.3 months in 1989-90.

Province of Ontario Savings Office

Deposits and investment certificates are fully guaranteed by the Province. Funds, which are surplus to the day to day operating needs, are deposited with the Treasurer of Ontario. The balance on deposit at year end was $1,765 million, an increase of $315 million from the previous year.

Ontario Hydro

The Province has also borrowed on behalf of Ontario Hydro, in the United States, and from Canada Pension Plan. The proceeds were advanced to Ontario Hydro, secured by bonds bearing like terms and conditions to the securities issued by Ontario. Of the $7,898 million outstanding as at March 31, 1990, $5,150 million (U.S. $4,401 million) has been borrowed in the United States and $2,748 million from CPP. In addition, securities issued by Ontario Hydro are guaranteed by the Province. As at March 31, 1990 they represented a contingent liability of $19,727 million.

The Province and Ontario Hydro are developing a global financing strategy to take advantage of financing opportunities in both Canadian and international capital markets.

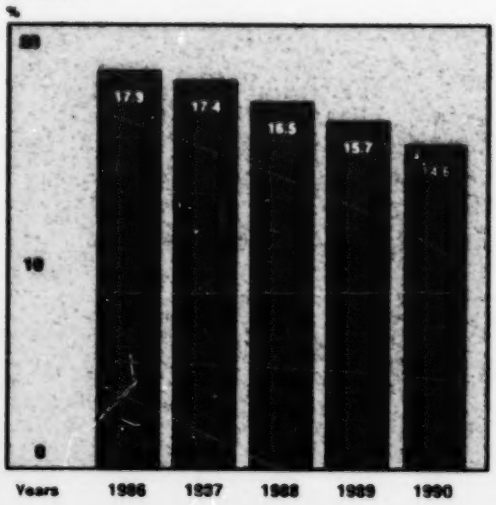
Ontario's Consolidated Public Sector Debt

A broader measure of public sector debt in Ontario is presented in Table 2 and includes:

- Ontario's debt issued for provincial purposes;
- deposits with POSO and other accounts;
- Ontario's debt issued on behalf of Ontario Hydro;
- obligations issued by Ontario Hydro and guaranteed by the Province; and
- an estimate of other public sector debt (in the form of bonds, debentures, and notes excluding sinking funds and own holdings) incurred by provincial agencies and by the local government, university and hospital sectors.

The above approach to debt highlights the effects of centralization of Ontario's public sector financing through which the Province's own financial base has been used to substantially fund the local government sector and its agencies. The Province carefully controls the use of the provincial guarantee, restricting it primarily to borrowings by Ontario Hydro and Ontario Housing Corporation.

Graph 15
Ontario's debt as a percentage of GDP



Graph 16
Months of revenue to repay Ontario's debt

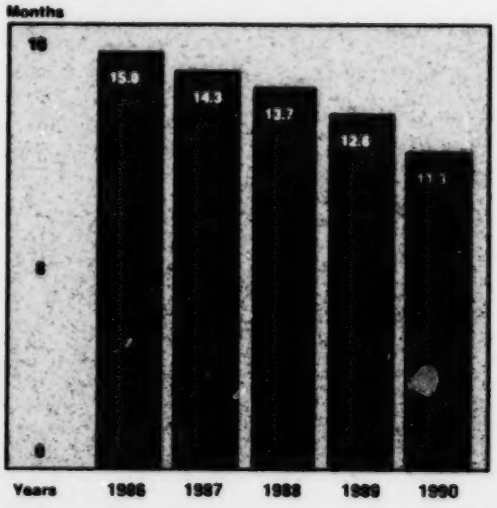
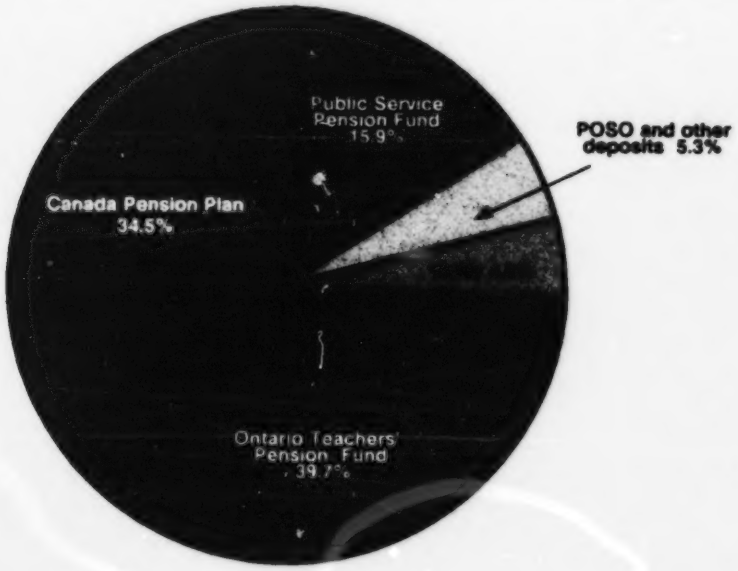


Chart 17
Ontario's debt - major components
March 31, 1990



Ontario's Consolidated Public Sector Debt		**Table 2**
March 31		
($ millions)	**1990**	**1989**
Ontario's Debt:		
Debt issued for Provincial purposes	37,170	37,294
Other:		
- Province of Ontario Savings Office and other deposits	2,086	1,720
	39,256	39,014
Ontario Hydro Debt:		
Debt incurred by the Province	7,898	7,789
Debt guaranteed by the Province*	19,727	19,259
	27,625	27,048
Other Public Sector Debt (estimated)	4,462	4,260
Total Ontario's Consolidated Public Sector Debt	71,343	70,322

* The guaranteed debt excludes bank loans and is net of debt accumulated by Ontario Hydro for early retirement, which in 1990 was $1,126 million (1989 $1,075 million).

Selected Financial and Economic Statistics

March 31 ($ millions)	89-90	88-89	87-88	86-87	85-86
Financial Transactions					
Revenue	41,692	37,256	32,453	29,544	26,240
Expenditure	41,602	38,735	34,942	32,178	28,854
Surplus/(Deficit)	90	(1,479)	(2,489)	(2,634)	(2,614)
Accumulated Deficit	35,409	35,499	34,020	31,531	28,919
Net Financing	242	2,033	1,878	2,199	2,863
Ontario's debt/liabilities					
Debt issued for					
- **Provincial purposes**	37,170	37,294	35,703	33,994	32,020
Province of Ontario Savings Office and other deposits	2,086	1,720	1,278	1,109	884
Ontario's debt/liabilities	39,256	39,014	36,981	35,103	32,904
Ontario Hydro -					
Debt incurred by the Province	7,898	7,789	7,541	7,786	8,189
Contingent liabilities (mainly Ontario Hydro)	21,490	20,559	18,595	17,603	15,963
Gross Domestic Product (GDP) at market prices[1]	269,552	247,969	223,694	201,228	183,561
Personal income per capita[1] (dollars)	23,709	21,849	20,242	18,508	17,354
Ontario's Debt as a percentage of GDP	14.6	15.7	16.5	17.4	17.9

[1] Gross domestic product and personal income are calculated on a calendar year basis. The amounts appearing in a fiscal year column are for the preceding calendar year.

1990 Financial Statements

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Summary of Significant Accounting Policies

Reporting entity

The financial statements, prepared using the concept of a Consolidated Revenue Fund, are designed to provide an accounting of the financial resources appropriated by the Ontario Legislature. The policies and practices followed by the Province are designed to accommodate reporting to the Legislature and, accordingly, the financial transactions of Government ministries are set out as Consolidated Revenue Fund cash inflows and outflows. Activities of Crown corporations, boards and commissions are reported only to the extent to which their operations have been financed from, or have contributed to, the Consolidated Revenue Fund.

Basis of accounting

The cash basis of accounting used by the Province is modified to allow for an additional thirty days to pay for debts incurred during the fiscal year just ended and for certain non-cash transactions. Cash inflows, however, are closed at March 31 for cash received.

Loans and advances are recorded as financial assets if they are expected to be repaid and have specific terms and conditions. The asset values are periodically adjusted when it can be reasonably determined that the value of their underlying security has diminished, or when the Province's asset is not likely to be fully recovered. Equity holdings in Crown corporations are valued at a nominal amount of $1.

The Province's financial transactions are recorded under the following four categories:

Revenue

This includes revenue raised through taxation, premiums, fees, licences and permits, payments from the federal government under fiscal arrangements and cost-shared programs, and income from investments.

Expenditures

Expenditures on government programs include transfer payments to individuals, local governments and institutions, interest on debt issued for provincial purposes, salaries and employee benefits, payments for goods and services, and the acquisition and construction of fixed assets. Fixed asset costs are charged to expenditure when acquired or constructed since they are not considered to differ from any other service to the public.

Financing

Financing consists of debt transactions, deposits with the Province of Ontario Savings Office, and other deposits.

Debt transactions are the borrowing and repayment activities associated with Ontario's provincial purpose debt.

Loans and investments

Loans and investments are the lending and investment activities in various Crown corporations, agencies and local governments.

Financial assets, accumulated deficit and liabilities

Financial assets

Financial assets are cash and claims by the Consolidated Revenue Fund on other parties arising from cash transactions.

Accumulated deficit

The accumulated deficit of the Province is the difference between its liabilities and its financial assets. The year-to-year change in the accumulated deficit is the amount by which revenues are greater or less than expenditures.

Liabilities

Liabilities are established claims by other parties on the Consolidated Revenue Fund.

Debt issued for provincial purposes comprises debentures and notes which are recorded at face value. The general resources of the Province are used for the continued orderly retirement of debt and no sinking funds are maintained for this purpose.

Other liabilities include deposits with Province of Ontario Savings Office and other deposit accounts.

Contingent liabilities

The contingent liabilities of the Province consist of guarantees by the Treasurer of Ontario and material claims against the Crown. Contingent liabilities denominated in foreign currencies are translated to Canadian dollars at the year-end rates of exchange.

Ontario Hydro

Advances to, and debt incurred for, Ontario Hydro relate to amounts borrowed on behalf of Ontario Hydro. The Province issues securities, and advances the proceeds to Ontario Hydro in exchange for Ontario Hydro bonds with like terms and conditions. Since these transactions and the ensuing retirement and debt servicing costs are the result of a financing alternative and are not part of the Province's own budget plan, they are classified separately. Both the advances and the debt incurred are stated in Canadian dollars using year-end rates of exchange.

Statement of Financial Transactions

Province of Ontario			
For the year ended March 31, 1990 ($ millions)	Budget 1990	Actual 1990	Actual 1989
Revenue	40,713	41,692	37,256
Expenditure	41,290	41,602	38,735
Surplus (Deficit)	(577)	90	(1,479)
Financing			
Debt: Issues	2,048	1,882	2,512
Retirements	1,428	2,006	920
Net Debt Issues (Retirements)	620	(124)	1,592
Province of Ontario Savings Office and Other Deposits	326	366	441
Net Financing	946	242	2,033
Loans and Investments - Net Repayments	5	27	96
	951	269	2,129
Increases in Cash and Temporary Investments	(374)	(359)	(650)
Increase (Decrease) in Accumulated Deficit	577	(90)	1,479

See accompanying Summary of significant accounting policies and Notes to the financial statements.

Statement of Revenue

Province of Ontario

For the year ended March 31, 1990 ($ millions)	Budget 1990	Actual 1990	Actual 1989
Taxation			
Personal income tax	12,636	13,518	11,687
Retail sales tax	8,679	8,549	7,775
Corporations tax	4,827	4,720	4,223
Gasoline tax	1,394	1,356	1,230
Employer health tax	549	477	-
Tobacco tax	646	770	750
Land transfer tax	632	701	634
Fuel tax	345	348	309
Mining profits tax	150	197	135
Reciprocal taxation	115	133	109
Race tracks tax	83	83	79
Public utilities income tax	85	103	54
Commercial concentration tax	62	53	-
Other	7	7	12
	30,210	31,015	26,997
Other revenue			
Ontario Health Insurance Plan premiums	1,301	1,394	1,745
Profits from Crown corporations and boards			
Liquor Control Board of Ontario	608	640	645
Ontario Lottery Corporation	500	491	485
Vehicle registration fees	587	614	509
Liquor Licence Board of Ontario revenues	450	427	399
Other fees and licences	398	308	279
Interest on investments and loans	265	467	265
Royalties	206	193	187
Utility service charges	137	134	137
Sales and rentals	121	113	131
Fines and penalties	187	120	113
Miscellaneous	274	412	251
	5,034	5,313	5,146
Government of Canada			
Established Programs Financing	2,676	2,616	2,674
Extended Health Care Services	492	491	463
Canada Assistance Plan	1,739	1,746	1,497
National Training Agreement	116	109	114
Bilingualism Development	56	57	48
Young Offenders	78	56	56
Vocational Rehabilitation	61	51	30
Other	251	238	231
	5,469	5,364	5,113
Total revenue	40,713	41,692	37,256

See accompanying Summary of significant accounting policies and Notes to the financial statements.

Statement of Expenditure

Province of Ontario			
For the year ended March 31, 1990 ($ millions)	Budget 1990	Actual 1990	Actual 1989
Ministry			
Agriculture and Food	527	509	511
Attorney General	506	493	415
Board of Internal Economy	98	103	99
Citizenship	51	46	46
Colleges and Universities	2,746	2,731	2,668
Community and Social Services	5,056	5,062	4,311
Consumer and Commercial Relations	156	158	146
Correctional Services	454	473	410
Culture and Communications	317	314	255
Education	5,210	5,321	5,111
Energy	43	33	38
Environment	483	487	415
Executive Offices	9	8	8
Financial Institutions	41	41	37
Government Services	740	668	612
Health	13,904	14,127	12,569
Housing	537	527	421
Industry, Trade and Technology	183	136	156
Technology Fund	85	72	62
Intergovernmental Affairs	9	8	9
Labour	139	133	119
Management Board	48	41	38
Municipal Affairs	565	565	1,383
Natural Resources	570	587	577
Northern Development and Mines	322	308	287
Office for Disabled Persons	8	8	7
Office of Francophone Affairs	3	4	3
Office Responsible for Native Affairs	6	6	4
Office Responsible for Senior Citizens Affairs	9	7	7
Office Responsible for Women's Issues	18	17	16
Revenue	850	825	799
Skills Development	433	415	402
Solicitor General	475	498	448
Tourism and Recreation	191	185	177
Transportation	2,313	2,319	2,067
Treasury and Economics	32	32	29
Economic Development Projects	63	51	41
Interest on debt issued for provincial purposes	4,290	4,284	4,032
Expenditure savings and constraints (note 9)	(200)	-	-
Total expenditure (note 8 and 10)	41,290	41,602	38,735

See accompanying Summary of significant accounting policies and Notes to the financial statements.

Statement of Financing

For the year ended March 31, 1990 ($ millions)	Province of Ontario Budget 1990	Actual 1990	Actual 1989
Debt			
Issues:			
Teachers' Pensions	1,000	1,290	1,809
Public Service Pensions	1,048	592	703
	2,048	1,882	2,512
Retirements:			
Canada Pension Plan	454	446	412
Teachers' Pensions	-	189	-
Public Service Pensions	319	712	-
Public	650	650	500
Other	5	9	8
	1,428	2,006	920
Net Debt Issues (Retirements)	620	(124)	1,592
Province of Ontario Savings Office - Net Deposits	285	315	377
Other Deposits - Net	41	51	64
Net Financing	946	242	2,033

See accompanying Summary of significant accounting policies and Notes to the financial statements.

Statement of Loans and Investments

For the year ended March 31, 1990 ($ millions)	Province of Ontario Budget 1990	Actual 1990	Actual 1989
Repayments			
Corporations, boards and commissions	42	57	80
School Boards	34	34	40
Water treatment and waste control facilities	21	24	26
Tile Drainage Debentures	21	23	23
Other	36	29	33
	154	167	202
Issues			
Corporations, boards and commissions	83	68	67
Water treatment and waste control facilities	46	33	24
Tile Drainage Debentures	14	13	12
Other	6	26	3
	149	140	106
Net Repayments	5	27	96

See accompanying Summary of significant accounting policies and Notes to the financial statements.

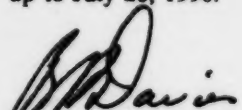
Statement of Financial Position

Province of Ontario

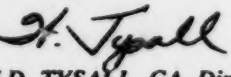
As at March 31, 1990 ($ millions)	1990	1989
Financial assets		
Cash and temporary investments (note 1)	2,603	2,244
Investments in water treatment and waste control facilities (at cost less recoveries) (note 2)	475	466
Loans to local governments	318	380
Loans and investments in corporations, boards and commissions (note 3)	381	370
Other loans	70	55
	3,847	3,515
Advances to Ontario Hydro, secured by bonds (note 4)	7,898	7,789
Total financial assets	11,745	11,304
Accumulated deficit	35,409	35,499
	47,154	46,803
Liabilities		
Debt issued for provincial purposes (note 5)	37,170	37,294
Deposits with the Province of Ontario Savings Office and other deposits	2,086	1,720
Total liabilities for provincial purposes	39,256	39,014
Debt incurred for Ontario Hydro (note 5)	7,898	7,789
	47,154	46,803
Contingent liabilities (note 7)	21,490	20,559

See accompanying Summary of significant accounting policies and Notes to the financial statements.

The accompanying March 31, 1990 financial statements of the Province of Ontario, including the notes are the responsibility of the Office of the Treasury and have been prepared in accordance with the accounting policies as described in the Summary of Significant Accounting Policies. In the opinion of the Office of the Treasury, these financial statements have been properly prepared, include all material items, and contain all information available up to July 20, 1990.



B. P. DAVIES, Deputy Treasurer of Ontario and Deputy Minister of Economics



W.D. TYSALL, CA, Director, Financial Information and Accounting Policy Branch

Notes to the Financial Statements

(all tables in millions of dollars)

1. Cash and temporary investments

Temporary investments are recorded at cost and are mainly marketable, short-term securities issued or guaranteed by Canadian chartered banks, provincial and federal governments.

2. Investments in water treatment and waste control facilities

The Ministry of the Environment lets extensive contracts for the building of water and sewage systems to serve municipalities. These investments are being recovered over the life of the agreements with the municipalities.

Agreements covering $401 million of the investment are for provincially-owned projects that are subject to service rate billings. The proceeds from these billings are used to amortize the investment over periods of up to forty years, to pay for operating costs, and to provide a return on the investment.

Certain other agreements provide for the accumulation of the principal portion of annual amortization payments in a sinking fund. The accumulated balance in these funds, amounting to $29 million at March 31, 1990 (1989 $26 million), was applied as a reduction of the investment account.

3. Loans and investments in corporations, boards and commissions

	1990	1989
Development Corporations	$308	$290
Other	73	80
	$381	$370

The Province advances funds for the lending activities carried out by the Development Corporations. The Province also defrays the Corporations' costs for all administrative expenses, loans made at low interest rates, and honouring guarantees, amounting to $35 million in 1990 (1989 $29 million). In addition to repayments, advances to the Corporations are reduced by their loan forgiveness and write-offs amounting to $9 million in 1990 (1989 $13 million).

4. Advances to Ontario Hydro

The Province issues securities and advances the proceeds to Ontario Hydro in exchange for Ontario Hydro bonds with like terms and conditions. These transactions and the ensuing retirement and debt servicing costs are the result of a financing alternative and are not part of the Province's own budget plan. As at March 31, 1990, the bonds consist of U.S. $4,401 million (1989 U.S. $4,770 million), and Canadian $2,748 million (1989 Canadian $2,097 million) with respect to Canada Pension Plan funds. The bonds denominated in U.S. dollars are recorded at $5,150 million (1989 $5,692 million), the Canadian dollar equivalent using the exchange rate in effect at year end. Transactions during the year are as follows:

	1990	1989
Proceeds of loans	$650	$589
Retirements of loans	(436)	(145)
Net proceeds	214	444
Foreign exchange gain	(105)	(196)
Net increase in debt incurred for Ontario Hydro purposes	109	248
Related advances, interest and recoveries		
Advances to Ontario Hydro	650	589
Interest	876	838
Recovery of interest and loan retirements	(1,312)	(983)
Net advances	214	444
Foreign exchange gain	(105)	(196)
Net related advances, interest, foreign exchange - gain and recoveries	$109	$248

5. Debt

Debentures and notes for provincial purposes, and for Ontario Hydro, expressed in Canadian dollars, by the currency in which they are payable and by years of repayment maturity are summarized in the following tables.

For Provincial purposes

Years of repayment/ maturity March 31	1990	Weighted average interest rate %	1989	Weighted average interest rate %
1990	$		$1,414	
1991	688		534	
1992	639		638	
1993	1,176		1,177	
1994	1,087		1,087	
1995	1,046			
1-5 years	4,636	8.02	4,850	8.33
6-10 years	7,807	9.63	6,738	9.42
11-15 years	10,136	12.18	10,035	11.64
16-20 years	10,373	11.94	10,925	12.30
21-25 years	4,152	10.81	4,665	11.18
26-30 years	64	10.03	71	9.94
31-35 years	2	10.68	10	10.32
	$37,170	10.90	$37,294	10.94

Payable to:	1990	1989
Minister of Finance of Canada		
Canada Pension Plan Investment Fund	$13,535	$13,981
Other	324	332
Ontario Teachers' Pension Fund	15,622	14,521
Public Service Pension Fund	6,224	6,345
The Ontario Municipal Employees Retirement Fund	1,293	1,293
Public Investors	172	822
	$37,170	$37,294

For Ontario Hydro

Years of repayment/ maturity March 31	1990 Canadian	United States	Total	Weighted average interest rate %	1989 Total	Weighted average interest rate %
1990					$ 239	
1991	$	$ 51	$ 51		52	
1992		347	347		354	
1993		228	228		232	
1994		-	-			
1995		292	292			
1-5 years		918	918	13.85	877	13.40
6-10 years		445	445	7.33	605	9.52
11-15 years	1,000	694	1,694	11.83	1,666	12.12
16-20 years	1,748	2,183	3,931	9.47	3,394	9.35
21-25 years		910	910	14.78	1,247	13.52
	$2,748	$5,150	$7,898	10.98	$7,789	11.06

Payable to:	1990	1989
Minister of Finance of Canada		
Canada Pension Plan Investment Fund	$2,748	$2,097
Public Investors	5,150	5,692
	$7,898	$7,789

The U.S. dollar debenture liability has been revalued, using the rate of exchange as at March 31. The foreign exchange gain is $105 million ($196 million in 1989).

As explained in Note 4, the Province has an offsetting asset of Ontario Hydro bonds with like terms and conditions to the securities issued by the Province.

6. Pensions

a) Changes in legislation

New legislation was enacted in December 1989, affecting the Public Service and Teachers' Pension plans.

i) In accordance with the Public Service Pension Act, 1989:

- The Public Service Superannuation Fund (PSSF) established under the Public Service Superannuation Act is continued as the Public Service Pension Fund (PSPF).
- The assets and liabilities of the Superannuation Adjustment Fund account (the Account) for the Public Service Superannuation Plan and the Ontario Provincial Police Supplementary Benefits account were transferred to the PSSF on December 31, 1989.
- As of January 1, 1990, the assets and liabilities of the PSSF were transferred to the PSPF, and the PSSF ceased to exist in the Consolidated Revenue Fund. The transfer of assets was made by the issuance of $6.9 billion in non-marketable debentures of the Province of Ontario.
- As of January 1, 1990, the Public Service Pension Board is responsible for managing the assets of, and paying the benefits for, the Public Service Pension Plan.

On April 2, 1990, an action was commenced in the Supreme Court of Ontario challenging the transfer of the Account's assets and liabilities to the PSSF. The impact on the Consolidated Revenue Fund, if any, cannot be determined because the outcome of this action is uncertain.

ii) In accordance with the Teachers' Pension Act, 1989:

- The Teachers' Superannuation Fund (TSF) established under the Teachers' Superannuation Act is continued as the Ontario Teachers' Pension Fund.
- The assets and liabilities of the Superannuation Adjustment Fund account (the Account) for the Teachers' Superannuation Fund were transferred to the TSF on December 31, 1989. These net assets were transferred by the issuance, on January 1, 1990, of $1.6 billion in non-marketable debentures of the Province of Ontario, and the Account ceased to exist in the Consolidated Revenue Fund.
- As of January 1, 1990, the Ontario Teachers' Pension Board is responsible for managing the assets of, and paying the benefits for, the Teachers' Pension Plan.

b) Unfunded liabilities

i) The Public Service Pension Plan

The Province makes payments matching contributions for members of the Public Service Pension Plan (the Plan) and is committed to paying any deficiency. The adequacy of the assets in the Plan to finance benefits is determined by a triennial actuarial valuation.

The latest valuation of the PSSF filed with the Pension Commission of Ontario covered the period ended December 31, 1985 and showed an actuarial surplus of $109.9 million.

An actuarial valuation as of January 1, 1990 will determine the size of the unfunded liability of the PSPF. This will be done under the direction of the Public Service Pension Board (the Board), pursuant to the Public Service Pension Act, 1989. A preliminary actuarial valuation of the PSPF prepared in 1989 estimated an unfunded liability of $1.9 billion as at January 1, 1990. The Province will pay the unfunded liability, over 40 years, in accordance with the legislation.

Interim payments, based on the estimated initial unfunded liability, to be paid by the Province until 1992, are: $89.6 million in 1990, $94.5 million in 1991, and $99.7 million in 1992, for a total of $283.8 million.

The amount of these payments will be adjusted when the actuarial valuation prepared for the Board is filed with the Pension Commission of Ontario.

ii) Ontario Teachers' Pension Plan

The Province makes annual payments matching teachers' contributions to the Teachers' Pension Fund (TPF) and is committed to paying any deficiency in the TPF. The adequacy of the assets in the TPF to finance benefits is determined by a triennial actuarial valuation.

The latest actuarial report for the Teachers' Superannuation Fund as at December 31, 1987, showed a surplus of $33 million.

An actuarial valuation as of January 1, 1990 will determine the size of the unfunded liability of the TPF. This will be done under the direction of the Ontario Teachers' Pension Plan Board (the Board) pursuant to the Teachers' Pension Act, 1989. A preliminary actuarial valuation of the TPF prepared in 1989, estimated an unfunded liability of $4.0 billion as at January 1, 1990. The Province will pay the unfunded liability over 40 years, in accordance with the legislation.

Interim payments, based on the estimated initial unfunded liability, to be paid by the Province until 1992, are: $192.4 million in 1990, $202.9 million in 1991, and $214.1 million in 1992, for a total of $609.4 million.

The amount of these payments will be adjusted when the actuarial valuation prepared for the Board is filed with the Pension Commission of Ontario.

Any future deficiencies for the Ontario Teachers' Pension Plan and the Public Service Pension Plan will be amortized as prescribed by the Pension Benefits Act.

7. **Contingent liabilities**

	1990	1989
Obligations guaranteed by the Province:		
Debentures/bonds and notes		
Ontario Hydro	$19,727	$19,259
Loans guaranteed	1,593	852
Other	170	448
	$21,490	$20,559

Claims against the Crown:

There are claims outstanding against the Crown of which ten are for amounts over $50 million each, arising from legal action, either in progress or threatened, in respect of native Indian land claims, breach of contract, damages to persons and property and like items. The cost to the Province, if any, cannot be determined because the outcome of these actions is uncertain. To the extent that any such claims are successful, resulting settlements will be recorded as expenditures when paid.

8. Expenditure by standard account classification

	1990	1989
Salaries and wages	$ 3,349	$ 3,093
Employee benefits	576	512
Transportation and communication	352	329
Services	1,568	1,396
Supplies and equipment	751	687
Acquisition/construction of physical assets	645	507
Transfer payments	30,534	28,564
Interest on debt issued for provincial purposes	4,284	4,032
Other transactions	139	149
Less: recoveries	(596)	(534)
Total expenditure	$41,602	$38,735

9. Budget figures

The budget figures in the financial statements are based on data from the 1989 Ontario Budget which was tabled by the Treasurer of Ontario in the Legislative Assembly on May 17, 1989.

The Expenditure savings and constraints figure in the Statement of Expenditure represents expected underspending during the year which was not specifically identified by ministry at Budget time.

10. Advance Payments

In March 1990, Management Board of Cabinet approved earlier payments to hospitals and the Ontario Teachers' Pension Plan. The expenditures for the Ministry of Health and the Ministry of Education were increased by $334 million and $140 million respectively for payments which otherwise would have been made in the 1990-91 fiscal year.

11. Comparative figures

The 1989 comparative figures have been reclassified where necessary to conform with the 1990 Financial Statement presentation. This includes the liability of the Province for the following pension plans which have been reclassified to 'Debt issued for provincial purposes' from 'Net deposits to pension and related benefit funds', as described in note 6:

- Public Service Superannuation Fund,
- Superannuation Adjustment Fund,
- Ontario Provincial Police Supplementary Benefits account.

Provincial Auditor's Opinion

I have examined the statement of financial position of the Province of Ontario as at March 31, 1990 and the statements of financial transactions, revenue, expenditure, financing, and loans and investments for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly, in accordance with the basis of accounting set out in the Summary of Significant Accounting Policies, the financial position of the Province as at March 31, 1990 and the results of its operations and the changes in its financial position for the year then ended. Further, in my opinion, these Policies have been applied on a basis consistent with that of the preceding year.

With respect to the terms "in my opinion" and "present fairly" in the preceding paragraph, my examination was carried out to provide me with a high degree of assurance that the financial statements of the Province do not contain material aggregate error. More specifically, I am 99 per cent confident that the total of any errors in the financial statements is less than $80 million.

D.F. Archer, FCA,
Provincial Auditor

Toronto, Ontario
July 20, 1990.

Sources of Additional Information

The Ontario Budget

The Ontario government presents a Budget each year, usually in the early spring. The background and implications of any new tax proposals are contained in the Budget paper, which includes the Budget Statement, Budget measures, the fiscal plan and other information. Copies may be obtained free from the Ontario Government bookstore, Publications Ontario, 880 Bay Street, Toronto, Ontario or by writing to the Publications Services Section, 5th Floor, 880 Bay Street, Toronto, Ontario M7A 1N8.

The Estimates of the Province of Ontario

The government's spending estimates for the fiscal year commencing April 1 are presented to members of the Legislative Assembly following the presentation of the Ontario Budget by the Treasurer. The Estimates outline the spending plans of each Ministry that the Legislative Assembly will be asked to approve in the form of a Supply Act. Copies of the Estimates may be obtained free from the Ontario Government bookstore, Publications Ontario, 880 Bay Street, Toronto, Ontario, or by writing to the Publications Services Section, 5th Floor, 880 Bay Street, Toronto, Ontario M7A 1N8.

The Public Accounts of Ontario

The Public Accounts of Ontario, the government's annual financial statements required by Section 13 of the Ministry of Treasury and Economics Act for the fiscal year ended March 31, is tabled in the Legislature usually in October of each year. They consist of three volumes:

- Volume 1 contains the financial statements of the Province and schedules of supporting information.
- Volume 2 contains the financial statements of selected provincial crown corporations, boards and commissions.
- Volume 3 contains the details of expenditure.

The Public Accounts are available from the Ontario Government bookstore, Publications Ontario, 880 Bay Street, Toronto, Ontario

Prices are: Volume 1, $5; Volume 2, $4; Volume 3, $3.50.

Ontario Finances

This is a quarterly report on the performance of the government's Budget for the fiscal year. It covers developments during the quarter and provides a revised outlook for the remainder of the year. Copies may be obtained free by writing to the Ministry of Treasury and Economics, Communications Branch, 5th Floor, Frost Building South, 7 Queen's Park Crescent, Toronto, Ontario, M7A 1Y7.

Ontario Economic Accounts

This quarterly report contains data on the composition of Ontario's economic activity. Copies may be obtained free by writing to the Ministry of Treasury and Economics, Office of Economic Policy, 5th Floor, Frost Building North, 95 Grosvenor Street, Toronto, Ontario, M7A 1Z1.

Demographic Bulletin

This bulletin provides population projections and estimates for Ontario and its counties, districts and regional municipalities. It also contains statistics on the components of population change in Ontario and is produced intermittently during the year. Copies may be obtained free from the Ontario Government bookstore, Publications Ontario, 880 Bay Street, Toronto, Ontario, or by writing to the Publications Services Section, 5th Floor, 880 Bay Street, Toronto, Ontario M7A 1N8.